

IDAHO DEPARTMENT OF FINANCE



STRATEGIC PLAN

For Fiscal Years Ending June 30, 2005 through June 30, 2009

Submitted: July 1, 2004

Approved: _____
GAVIN M. GEE
Director of Finance

DEPARTMENT OF FINANCE

STRATEGIC PLAN

For Fiscal Years Ending June 30, 2005 through June 30, 2009

MISSION STATEMENT

The mission of the Idaho Department of Finance is to aggressively promote access to vigorous, healthy and comprehensive financial services for Idaho citizens. This is accomplished through prudent and efficient oversight of financial institutions, investment opportunities, and credit transactions. Through administration of laws enacted by the Idaho Legislature, legitimate financial transactions are encouraged, while fraud, unsafe practices, and unlawful conduct are detected and appropriate enforcement action is taken.

VISION STATEMENT

We envision innovation by the markets in response to greater public demand for services, and a financial marketplace that will be greatly affected by national and international events. We foresee the continuing development and implementation of advanced computer technology and telecommunications by the industry and government. The industries that we regulate will become more complex as new products and technologies are developed.

We believe that this increasing complexity in financial services regulation will lead many financial institutions to seek a state charter because of the responsiveness, flexibility and accessibility local regulation offers. State regulators will also continue to assume increasing responsibility for local enforcement actions as federal resources are directed at national problems. To this end, we are committed to providing our employees with the knowledge and skills necessary to meet these new challenges.

OPERATING PHILOSOPHY

We are committed to maintaining outstanding public service and high professional standards. Promptness and accuracy are the touchstones of our operations. All stakeholders of the Department (citizens, the markets, the industries regulated, the Governor, the Legislature, and our employees) will be given quality responses in a timely manner and can expect the Department to be in the forefront of all important developments affecting laws we administer.

We believe in hiring competent people and providing them the necessary training and guidance to promote a professional environment. We will continue to demonstrate fiscal and operational responsibility. Open communication with the industries we regulate is critical to the citizens of Idaho and the success of the Department.

ISSUES/CHALLENGES

- Continued efforts will be made to reduce regulatory burdens on the financial services industry enabling it to operate in an efficient and effective manner.
- High turnover rate of our highly trained, highly skilled staff due to non-competitive salaries threatens the quality and quantity of work that can be done by existing staff.
- Increased federal preemption in the financial services industry will require significant education of federal and state lawmakers concerning the value and efficiency of state regulation, and vigilance on the part of the Department and its allies in preserving the state regulatory system.
- Amendments enacted this year to the Idaho Residential Mortgage Practices Act will require the Department to license individual mortgage loan originators working with mortgage brokers and lenders. Effective after the appropriate appropriation by the legislature, the Department estimates it will be licensing an additional 10-15,000 individuals under this law. The Department will review each applicant's background and prior history in the mortgage origination field, as well as assure the required surety bond is in place. The law also prohibits certain practices by mortgage loan originators and the Department will handle all new complaints against originators. Based on the experiences of other states, we estimate 4-6 new staff persons will be required to handle the increased workload generated by these new provisions. We also expect our use of legal resources to increase based on these additional responsibilities. Finally, our existing office space is inadequate to house the additional staff that will be required, so expansion of our existing space or a move to a new location is also likely to be needed.
- New products and innovations are necessitating examiners to develop the skills required to analyze increasingly complex financial transactions.
- The significant increase in workload and the increasing complexity of the work will require the Department to expand its existing staff and to identify our regulatory priorities in assigning work to staff members.
- Technological changes will require innovations in our operations and regulation, along with continuing education of our staff.
- International influences will demand changes in regulation and procedures to

accommodate the entrance of global entities and ideas into U.S. markets.

- The removal of geographic and political barriers (i.e. NAFTA, GATT, interstate banking, web-based access) will require our increased attention to remain effective in our operations and regulatory efforts.
- Rapid changes in the financial services industry will require us to commit more resources toward continuously upgrading the Department's computer hardware and software systems and other equipment.
- Economic growth, population increases and changing demographics, and the introduction of new products will serve to expand the Department's workload.
- Industry consolidation and the growth of multi-state financial institutions will require better coordination between federal and state regulators.
- Financial institution examiners will become increasingly dependent upon electronically generated and transmitted data for off-site and on-site monitoring, thus requiring the need for stricter security procedures to safeguard the confidentiality of sensitive financial data.
- Regulatory issues will become more complex due to advanced technology and innovations, international influences, large-scale mergers, and the trend toward the combination of banking, insurance, and securities functions.
- The many changes in financial services will require that we foster an environment in which all employees recognize the need for enhanced training and skills and the value of their contribution to the Department's mission.
- Additional responsibilities assigned to the Department will necessitate a review of staff duties keeping in mind existing workloads, position descriptions and employee morale.
- The significant increase of Internet financial and investment fraud and other violations of law will result in an increased workload.
- An increase in staffing will necessitate relocation or expansion of the Department's office to accommodate this growth.
- Emergency operations plans are more critical than ever. The Department must be prepared to carry out its own functions during a crisis, as well as assist the industries under our authority to carry out their essential functions.
- The Department must be cognizant of external factors that affect its human resources. In particular, the Department has many long-term employees who may retire within a relatively short time of each other. We must have the more junior employees trained to assume these senior roles, and assure that no area of expertise is left vacant.

FIVE YEAR GOALS

1. Increase efforts to educate Idaho youth and adult consumers regarding the safety of Idaho financial institutions, sound investment opportunities, and how to recognize and avoid fraudulent and deceptive financial practices, including Internet fraud.
2. Increase efforts to coordinate and cooperate with other state, federal, and international regulators and officials in view of the escalating trend towards interstate and international financial products and services.
3. Improve overall efficiency and reduce regulatory burdens through cooperation with other regulators and officials as different agencies can allocate resources, share information and divide jurisdiction. Less regulatory overlap will stretch governmental resources and result in fewer duplicate burdens on industry.
4. Increase efforts to educate the industries regulated by the Department regarding safe and prudent financial practices.
5. Retain national accreditation of both banking and credit union sections of the Financial Institutions Bureau.
6. Seek certification for all Securities Analysts/Examiners who have been with the Department for at least three years and who demonstrate a commitment to state service.
7. Increase staff to allow the Department to continue to adequately examine and otherwise supervise the increasing number of financial services industry members.
8. Regularly update the Department's Internet website to ensure that information and application forms are accurate and current.
9. Annually evaluate and revise the Department-wide personnel training policy.
10. Enhance competition among financial service providers for the benefit of Idaho citizens.
11. Maintain a strong state non-depository financial institution regulatory system.
12. Maintain the viability of the dual banking system.
13. Maintain a strong state securities regulatory system.
14. Maintain a strong state mortgage lending and brokering regulatory system.
15. Develop cross training and partnering programs to increase our ability to utilize available resources across organizational lines.

16. Assure that all rules administered by the Department are current and continue to be appropriate.

OBJECTIVES

1. Continue quality supervision of financial institutions while reducing regulatory burden and the overall cost of regulation.

Actions/Strategies

- Continue to review the examination process and report format on an annual basis or more often as needed.
- Annually review all policies, procedures and reports for propriety.
- Annually coordinate the examination of multi-state financial institutions with state and federal regulatory agencies.
- Review and adjust assessments and fees collected by the Department where appropriate.
- Solicit input on our effectiveness from industry participants.
- Conduct cost-benefit analysis of regulatory and operational functions.
- Reduce on-site examination hours in healthy financial institutions.
- Take prompt supervisory action in financial institutions where excessive risk is identified.
- Continue to work with the Administration, industry and the Legislature to identify unnecessary or outdated regulatory burdens that can be changed by law or regulation.
- Continue to expand the Department's e-commerce capabilities.

2. To provide prompt and efficient responses to industry and Idaho consumers.

Actions/Strategies

- Provide reports of examination to all financial institutions within thirty (30) days of completion of examination.
- Review and respond to all registration and exemption filings, no-action and opinion requests within ten (10) days, or earlier as required by the law.
- Review securities salesman applications within ten (10) days unless the Director determines there is good reason to extend this time period.
- Develop a database within the next five years to cross reference investigations, complaints, and administrative actions within the Department.
- Respond to consumer/investor inquiries and complaints in an objective, unbiased manner, providing only publicly available information.
- Cross train employees to increase our ability to respond to telephone inquiries from consumers at first point of contact.
- Hire and train a Consumer Affairs Specialist to handle an increasing number of consumer-finance related inquiries and complaints, to facilitate informal mediation for complaint resolution, and to develop educational materials for the benefit of industry and consumers.
- Publicize the web-based resources available to consumers, including on-line complaint forms, registration forms and no-action letters.

3. To streamline office procedures to handle increased workload.

Actions/Strategies

- Prepare regular statistical reports reflecting actual work performed to measure efficiency.
- Annually review office procedures to eliminate any unnecessary or outdated procedures.
- Prioritize the workload.
- Randomly verify representations in documents and filings, and take appropriate enforcement action where necessary.
- Continue the practice of dividing examination duties with other state and federal regulators to increase efficiency and reduce overlap, thus reducing regulatory burden.

- Develop a team approach to critical examinations or investigations utilizing skills of all employees regardless of industry.

4. Retain a knowledgeable and professional staff.

Actions/Strategies

- Maintain a Department wide training program that utilizes on-the-job training and formal schools offered by various industry/regulatory groups.
- Compensate staff in comparable fashion to the private sector and other financial services regulatory agencies.
- Maintain an adequate library.
- Provide continuing education for all staff members.
- Attract and retain individuals with superior qualifications.
- Fill vacant positions as soon as permissible.
- Promote existing, qualified staff to positions of increased responsibility.
- Encourage and offer opportunities for increased responsibility and challenges within the workplace.
- Encourage a spirit of cooperation, employee appreciation and good-humor in the workplace.
- Utilize goal setting and periodic employee evaluations to enhance employee development.

5. To increase education efforts directed at the regulated industries and youth and adult consumers.

Actions/Strategies

- Periodically meet with representatives of the financial services industry.
- Examine each registered broker-dealer, investment adviser, mortgage broker and mortgage lender office domiciled in Idaho as needed. Examine all state-registered investment advisers in Idaho at least every five years. Examine all endowed care cemeteries annually.
- Examine all financial services companies within the time frames prescribed by law.

- Adjust our oversight, enforcement and public education based on economic and regulatory developments at the national and state level.
- Monitor the development of new products and services.
- Update and enhance the Department's website with materials geared toward adult and child financial education.
- Maintain an adequate supply of hard copy investor education materials.
- Participate in public forums devoted to consumer/investor financial literacy efforts.
- Continue to work with public and private groups to develop methods to educate consumers/investors about financial matters.

6. Take enforcement action promptly and effectively.

Actions/Strategies

- Respond to customer complaints in a timely manner.
- Commence civil enforcement actions within six months of referral by the investigator.
- Schedule administrative hearings within 60 days of the request for a hearing.
- Keep witnesses and victims in cases apprised of significant actions in cases.
- Refer appropriate cases for criminal prosecution.

7. Encourage competition and preservation of the dual banking system.

- Charter new financial institutions pursuant to the requirements of Idaho law and in close coordination with relevant federal agencies (FDIC and FRB).
- Oppose, as appropriate, efforts such as preemption that weaken the dual banking system and undermine state regulation of financial services businesses.

8. Retain national accreditation status of the banking and credit union sections.

Actions/Strategies

- Complete the annual accreditation reviews for the banking and credit union sections.

- Implement or revise policies and procedures as necessary to comply with national standards.

9. Strengthen internal controls/operations and record keeping procedures.

Actions/Strategies

- Review all 17 Points of Focus annually.
- Complete Internal Control Checklist annually.
- Complete the GAAP Closing Package forms in a timely manner.
- Complete the FY 2006 budget ahead of schedule.
- Review performance indicators annually and revise as needed.
- Maintain an Information Technology system capable of supporting, enhancing and making more efficient the Department's work.
- Continue to implement the Department's record retention policies in conformance with the Department of Administration guidelines.
- Conduct an assessment of specific internal and external risks to the Department and take steps to reduce such risks.